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TAGS: [ECON](#) [EINV](#) [IC](#) [NE](#) [UK](#)
SUBJECT: UK - UNHAPPY WITH ICELANDIC PRESIDENT'S DECISION
ON ICESAVE, BUT NO OFFICIAL PROTEST - YET

REF: REYKJAVIK 000003

11. (SBU/NF) Summary: The UK government did not anticipate that Iceland President Grimsson would block the legislation on Icesave with UK Treasury officials telling us that until the morning of January 5, Icelandic officials had reassured the UK that the law would be signed. Given that Iceland's PM was taken aback by Grimsson's decision and had even questioned whether such an action was constitutional, the British government wants to give the Icelandic government time to work this out internally. The UK hopes that Iceland does not take any precipitous steps - such as holding a referendum - that could further complicate this situation and undermine support for Iceland's EU's membership and an additional IMF tranche. Official UK comments to the press have referenced the risks to Iceland's EU membership. End Summary.

UK Reaction

12. (U) In reaction to the announcement by the President of Iceland that he would not sign into law the Icesave bill passed by Iceland's parliament on December 30 and would instead refer the bill to a national referendum, Lord Myners, the financial services minister, said Iceland risked pariah status if voters rejected the loan repayment plan. He added that Iceland was aware of the risks to its relationship with the IMF and EU if it failed to repay the money. "I do not think it is a case of us having to warn them," he said. The Prime Minister's office issued the following statement: "The government expects the loan to be repaid. We are obviously very disappointed by the decision by the Icelandic president, but we do expect Iceland to live up to its legal obligations and repay the money."

13. (U) On the eve of Grimsson's announcement, Chancellor of the Exchequer Darling had urged the Icelandic president to sign the legislation. Darling told the British press that "We have spent many, many months in productive meetings with Icelandic authorities and the Icelandic government to enter an agreement to make sure that money was reimbursed to us." Darling said it was vital for Iceland's economic future that the Icesave compensation was repaid. "I would say to the people in Iceland that it is difficult but you have to realize that the British government had to step in to deal with a very difficult situation with savers in Icelandic banks."

14. (SBU/NF) Treasury Head of Financial Services Strategy Gary Roberts told ECOUNS January 6 that the UK has consistently maintained and will continue to emphasize that Iceland needs to meet its European Economic Area (EEA) obligations.

However, Roberts said that UK at this stage wanted to avoid making a direct linkage between repayment and Iceland's membership in the EU. However, the UK government would be forced to react if the European Commission proceeded in considering Iceland's membership if Iceland were in violation of its EEA obligations. Under such rules, a nation cannot join the EU if it has failed to insure its banking deposits outside its borders. Roberts noted that the UK hoped that other interested parties would ensure that the loan question was resolved before any membership discussion was conducted.

15. (SBU/NF) HMT officials said it would be difficult for the UK to support the next IMF review for Iceland if the decision on repayment were still unresolved. It would also be in no one's interest, postulated Roberts, to have a review anytime soon, since no one knows yet what the macro-economic effects of Grimsson's decision will be. Note: Immediately after the Icelandic president's decision, Fitch downgraded Iceland's credit rating to junk status.

The Terms

16. (SBU/NF) Roberts reiterated that discussions with Icelandic officials have always been productive and cordial, and called press stories about an acrimonious "dispute" between the UK and Iceland over the terms "erroneous." The UK will not renegotiate terms of agreement, said Roberts. Terms were "generous", with payments spread out over several years, a waiver of interest rate payments for seven years, and a 5.5 percent interest rate consistent with ten-year

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gilt. Moreover, UK terms were better than the Nordics, which had interest rates 200-300 basis points higher, he noted.

17. (SBU/NF) According to the UK press, HMT will begin talks with Brussels and its counterparts in the Netherlands. Roberts said HMT wants to ensure that neither the UK nor Dutch government takes precipitous action that would hamper the Icelandic government's ability to sort this out itself.

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